APPENDIX B

Judgment dated May 20, 1970

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Courthouse in the City of New York, on the twentieth day of May one thousand nine hundred and seventy.

Present:

HON. HENRY J. FRIENDLY,
HON. IRVING R. KAUFMAN,
Circuit Judges

HON. FREDERICK vP. BRYAN,
District Judge

MAURICE A. KRISEL,
Plaintiff-Appellant,

v.

RAFAEL DURAN, SAM J. VAN HINING, Economic Development Administration of Puerto Rico, and PHILLIPS PETROLEUM COMPANY,
Defendants,

PHILLIPS PETROLEUM COMPANY,
Defendant-Appellee.

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

On consideration whereof, it is now hereby ordered, adjudged, and decreed that the judgment of said District Court be and it hereby is affirmed with costs to be taxed against the appellant.

A. Daniel Fusaro/s
Clerk

APPENDIX C

APPENDIX C

Petition for Rehearing In Banc dated June 3, 1970

United States Court of Appeals

For the Second Circuit

DOCKET No. 34091

MAURICE A. KRISEL,
Plaintiff-Appellant,

against

RAFAEL DURAN, SAM J. VAN HINING and ECONOMIC DEVELOPMENT ADMINISTRATION OF PUERTO RICO,
Defendants,

and

PHILLIPS PETROLEUM COMPANY,
Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

PETITION FOR REHEARING IN BANC

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June 3, 1970.

Appendix C—Petition for Rehearing In Banc dated June 3, 1970

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Appendix C—Petition for Rehearing In Banc dated June 3, 1970

PETITION FOR REHEARING IN BANC

Plaintiff-Appellant respectfully petitions, pursuant to RAP Rule 40 and Rule 25 of this Court, for a rehearing *in banc* of the appeal in this case.

The appeal herein from a summary judgment of dismissal was heard by a Panel of this Court, comprised of Circuit Judges Friendly and Kaufman and District Judge Bryan, on May 11, 1970 and was decided on May 20, 1970, with a memorandum *per curiam*, reading:

> "We confirm for the reasons stated by Judge Weinfeld in his opinion below, 305 F. Sup. 572 (S. D. N. Y. 1969)."

The Case

This action was commenced in September, 1965. Appellee's motion for summary judgment was made originally in November, 1965. That motion was granted 3¾ years later in August, 1969, on a record of several thousand pages, which, for purposes of the appeal, were compressed in two appendices of over 600 pages (for the most part printed). During the pendency of the motion, *pretrial examination by the plaintiff of the Appellee was stayed* and plaintiff's pretrial discovery was *limited* to the taking of depositions of *two* of Appellee's affiants who were not employed by or associated with Appellee or any of the other defendants. Thus the record on which the judgment is predicated consists exclusively of the pleadings, *ex parte* affidavits, pretrial examinations by Appellee of the plaintiff, and the depositions of the above referred to two of Appellee's affiants.

Appendix C—Petition for Rehearing In Banc dated June 3, 1970

The action is for the tortious appropriation by the named defendants, including Appellee, of a plan and project which plaintiff submitted, in confidence, to the Economic Development Administration of Puerto Rico, known as EDA.

EDA was, and continues to be, an agency of the government of Puerto Rico charged with the duty of promoting the economic and industrial development of the Commonwealth and the gainful employment of its people, by seeking, attracting, promoting and fostering the establishment in Puerto Rico of profitable industrial enterprises. To thus attract capital and industry—primarily from the mainland of the United States—the government of Puerto Rico, through EDA and an affiliate organized as a public *business* corporation: offered and gave tax benefits, financing, land, buildings and other assistance and incentives; maintained soliciting offices in the United States and Canada (in New York, Los Angeles, Philadelphia, Chicago, Boston, Miami, Toronto) as well as in San Juan; widely publicized the advantages and opportunities available to investors, with the undertaking and assurance:

> "All inquiries will be kept in strict confidence. Call or write the office nearest you."

The plaintiff's plan and project, which after several conferences, was submitted to the EDA in a writing dated September 25, 1961 (20a-23a), under a heading *"Confidential"*, was the establishment by him and associates in an indicated locale in Puerto Rico of: (1) an extensive petrochemical complex or network of coordinated plants, which in successive stages of refining and processing would produce, out

of crude oil available for purchase and import cheaply from Venezuela, a vast array of products other than automotive or heating fuel; and (2) in the same locality, plants to utilize the final residue of the oil (black oil), virtually a waste, as cheap fuel to convert bauxite, to be brought in (by cheap barge transportation) from nearby Jamaica and Guianas, into aluminum and aluminum products.

The importation of the oil for the proposed enterprise was barred by the United States oil import restrictions promulgated in 1959 by Presidential order and administered by the Department of the Interior. Under those Regulations, oil and oil feed stocks were importable only under six months licenses which were granted on a quota basis *only* to refineries which existed and had *imported* oil and/or oil feed stocks in *March, 1959.*

Plaintiff *conceived,* and included in his proposal, a plan to overcome the block of the Regulations. He proposed to EDA that the government of Puerto Rico apply for and sponsor a modification of, or a variance from, the Regulations to the extent of a ten-year commitment to the proposed complex of a 50,000 barrel per day license, and in support thereof urge and demonstrate to the Department of the Interior that while the proposed huge industry would be of tremendous economic value and lasting benefits to Puerto Rico, it *would not be detrimental,* in any way, to the objectives of the United States oil policy because the crude oil thus imported would be almost totally converted into consumer products other than automotive or heating fuel and thus would not be competitive with, or otherwise disadvantageous to, the domestic oil industry.

EDA informed the plaintiff that his proposal "for the Commonwealth government to ask for [the proposed] commitment from the Federal Government" was "unreasonable", "impossible", in that "no one in the United States Executive branch is in a position to make" such a commitment (25a-26a) and "under no circumstances will the United States Government" in 1961 or 1962 "give a commitment to a United States or Puerto Rico company" which "will not be ready to process oil before April-May, 1963" or any commitment "extending beyond June, 1962" (27a).

Nonetheless, the EDA officials thereafter proceeded to discuss with others the substances of the project proposed by the plaintiff predicated upon procuring the suggested ten-year commitment. There followed, on December 16, 1963, a written proposal from Appellee which, in substance, was a replica of plaintiff's submission of September 25, 1961 (with the omission of the initial stage of refining by importing oil stock feeds rather than the original crude oil and the omission also of the bauxite-alumina feature—*but see below*). Appellee's proposal, like plaintiff's, was predicated upon EDA's successful sponsoring of an application for a ten-year license to import all of the required oil—in effect three times the quantity sought by the plaintiff. EDA accepted that proposal and sponsored and advocated such an application to the Department of the Interior on the basis which the plaintiff had suggested. The application was granted on February 11, 1965 (28a-35a, 154a-161a, 177a and 247a)—with permission, to boot, to the enterprise to sell, in the form of motor fuel, as much as 49.6% of the "net charge-stock used".

Appendix C—Petition for Rehearing In Banc dated June 3, 1970

A formal agreement followed on May 27, 1965 between Appellee and the Commonwealth of Puerto Rico. Under its terms, the *Commonwealth's public business corporation,* PRIDCO, *became the owner of 25%* of the basic corporation's capital stock and was given the right to acquire a like percentage of every "satellite" corporation.

EDA *also pursued,* with persons other than the plaintiff, the portion of the plaintiff's plan for the establishment of *bauxite-alumina plants;* and, in or about 1967, arrived at an agreement with the Sun Oil Company and the Aluminum Company of America for the establishment of such plants (340a-349a).

The Issues

It is apparent from the above outline that the disposition of this case depends upon the resolution of the following issues:

1. Was plaintiff's conception, plan, program or project novel or original within the meaning of the applicable law?

2. Was the submission to the EDA under an agreement—implied in fact or in law from surrounding circumstances and intent—that EDA would not disclose the project to others to exploit, or otherwise exploit it, unless and until plaintiff was accorded due opportunity to implement it?

3. Did the EDA, in breach of the confidence reposed in it, disclose or "leak", directly or indirectly, to Phillips or to others through whom the substance of plaintiff's conception reached Phillips? Or was

the Phillips proposal its own brainchild conceived independently of any EDA communication derived from plaintiff's June-October, 1961 presentation?

The question which this appeal presented was:

Were the above issues properly and constitutionally determined, *without a trial and in advance of full disclosure proceedings* (which the Court had restrained)—on the basis of the voluminous conflicting papers which constitute the present record?

Reasons for Rehearing in Banc

1. In accepting the "reasons stated by Judge Weinfeld in his opinion", it is submitted with the utmost respect, the deciding Panel strayed from the governing precepts of this Court's *in banc* decision in *Schoenbaum* v. *Firstbrook*, 405 F. 2d 215 (1968) which reiterated the prescriptions in this Court's earlier decisions in *Subin* v. *Goldsmith*, 224 F. 2d 753 (1955) and *Fogelson* v. *American Woolen Company*, 170 F. 2d 660 (1948), and which were reiterated in this Court as late as March 9, 1970 in *Goodis* v. *United Artists Television, Inc.*, F. 2d , Slip Op. p. 1851.

2. Judge Weinfeld, moreover, in arriving at his "reasons":

(i) demonstrably overlooked and misconstrued vital portions of the record and;

(ii) relied upon what he regarded as "common knowledge" in respect to matters which are not within the sphere of "judicial notice".

3. Consequently, it is believed and urged that a consideration of the record by the entire Bench of this Court would result, as in *Schoenbaum* v. *Firstbrook*, in a reversal, and for parallel reasons.

I.

The record does not warrant summary judgment. The judgment herein contravenes the limitations of FRCP 56(c) and the constitution's mandate of due process.

Although the limitations of the power to grant summary judgment are well known and have been stated often, nevertheless, every now and then, when a complex record presents issues which, subconsciously or consciously, do not commend themselves to the court, there intervenes an irresistible temptation to avoid lengthy pretrial discovery and lengthy trial by summarily making final what the court senses should be or will be the outcome of a trial. Such dispositions were vigorously advocated in the *dissenting* opinion in the *Schoenbaum* case but were *rejected by the majority* as contrary to law.

The record here seems to be in that category. That Judge Weinfeld found the case troublesome and difficult is apparent from the fact that 3¾ years elapsed between the making of the original motion and the decision and nearly 9 months elapsed between the date of the final argument (303a-319a) and the date of the decision (501a-511a). Those facts, we submit, is proof enough that the case presents serious questions of fact and law.

Moreover, the tenor of his opinion and especially the portion at the bottom of page 508a and the top of page 509a, indicate quite clearly an antipathetic reaction to the plaintiff's cause because (or partly because), the Commonwealth of Puerto Rico being directly involved, the suit jarred a latent residual of the obsolete legal notion that "the King can do no wrong". But whatever predelictions the record may bring into play, it is needless to say that the controlling legal principles must win paramountcy.

This Court's *Schoenbaum in banc* decision, overruling a Panel decision, mandates that disputed issues of "knowledge, intent and motive" and *ex parte* professions of matters not known to the Appellant

> "require a full trial with an opportunity to observe the demeanor of the witnesses, and to conduct cross-examination in open court"

and

> "in such cases summary judgment cannot be granted even after discovery has been had"

and

> "require at least that the plaintiff be permitted, through discovery, to develop the evidence to counter defendant's affidavits" (at p. 218).

In the March 9, 1970 decision of this Court in *Goodis* v. *United Artists Television, Inc., supra,* which involved nothing more than the construction of a written contract, a summary judgment was reversed because:

> "The party to whom summary judgment is awarded must have shown 'that there is no genuine issue as

> to any material fact and that the moving party is entitled to a judgment as a matter of law' (Fed. R. Civ. p. 56(c) . . ." (at p. 1866)

and

> "In an appeal from summary judgment we must resolve all disputed questions of fact in favor of the Appellant. Therefore, we accept Appellant's factual representations in the complaint . . ." (at p. 1876).

In *Fogelson* v. *American Woolen Company, supra,* cited with approval in the *Schoenbaum in banc* decision, the unanimous affidavits of all the corporation's directors, including a former Governor of Massachusetts, a former Governor of the Federal Reserve Board, a former Assistant Secretary of the Treasury, that each and all had voted the complained of action out of sincere business judgment that it was for the best interest of the company, the District Court's granting of summary judgment of dismissal on the basis of those affidavits, *was reversed despite the high standing of the affiants,* with the statement (at p. 662):

> "It may be unlikely that the plaintiffs can prove their allegation, for such proof must be drawn largely from the directors themselves by cross-examination; but we do not think that their affidavits must be accepted as conclusive and thus preclude any trial of that issue".

In *Subin* v. *Goldsmith, supra,* cited with approval in the *Schoenbaum in banc* decision, appears the following (at p. 758):

> "In Bozant v. Bank of New York, 2 Cir., 156 F. 2d 787, 790, we said, per Judge Learned Hand: 'In conclusion we cannot avoid observing that the case is another mistaken effort to save time by an attempt to dispose of a complicated state of facts on motion for summary judgment. . . . It appears to be somewhat difficult to persuade the district courts of this; but we are satisfied that it is true' . . . a summary judgment may not be used to 'withdraw these witnesses from cross-examination, the best method yet devised for testing trustworthiness of testimony' . . ."

Similarly, very recently, "affidavits of Secret Service officials . . . which enumerated factors pertaining to the safety of the President and the integrity of the White House . . . believed [by them] to justify imposing the restrictions in question" were held by the U. S. Court of Appeals for the District of Columbia Circuit to require:

> "a further exploration by the full process of a trial on the merits, not simply by presentation of untested affiants' statements and lawyers' arguments. In this way the issues may be clarified, substantiated, and resolved after having been subjected to the rigors of an evidentiary hearing".
>
> *A Quaker Action Group* v. *Hickel* (2/10/70).

II.

The several facets of the novelty issue clearly require a trial.

(1). Plaintiff does not claim that he invented a new product or a new industrial process. None of the pro-

posed processes and products severally considered (other than the utilization of the "black oil" for bauxite reduction) was new. Plaintiff *does contend* that the over-all project he conceived and submitted to the EDA was novel in that:

> (a) As far as appears, nowhere had there been a *unified complex* which refined and processed crude oil from initial refinement through the last known process which left "black oil". *As far as appears, moreover, nowhere had that cheap fuel been put to the use proposed by the plaintiff in the processing of bauxite.* Of course, there were in existence many refineries and many petro-chemical plants. But no one had thought of establishing every functional unit in a single locale, combined in a continuous chain of operations, as outlined in sections D and E of plaintiff's proposal (at pp. 21a-22a of the blue covered Appendix).
>
> (b) Section E of the proposal—the bauxite-alumina phase as conceived by the plaintiff—appears to be completely novel—an original utilization of the "black oil" residue of the petro-chemical operations and perceptive utilization of the pertinent geographic advantages of Puerto Rico, together resulting in great competitive advantages—in addition to increasing employment and economic improvement in Puerto Rico.
>
> (c) Completely novel was the plaintiff's concept of applying, and the basis for applying, for a *radical* variance from the Oil Regulations.

(2). As far as the last item is concerned, the fact that the experienced and skillful Administrator of the EDA rejected the proposal as utterly "unreasonable" and

ridiculously "impossible", seems proof enough that certainly the EDA had never thought of it. To be sure, applications to governmental authorities for licenses or minor variances from regulations is an established practice. But where prohibitions are accepted to be unbreachable walls, it requires ingenuity and creativity to conceive a successful plan or basis of penetrating the wall.

(3). As to above (a) and (b), the fact that Appellee characterized its December 16, 1963 somewhat truncated replica of plaintiff's proposal as *"a unique combination"* and a *"bold concept"*, it is submitted, by itself is sufficient to require a trial. Beyond that, the literature which Appellee submitted to buttress its defensive forensic contention that plaintiff's proposal and project contained no novelty, does not withstand analysis; that literature fails to substantiate the contention. That is demonstrated at pages 26-29 of the Brief which Plaintiff-Appellant has heretofore submitted.

Nor may the court, on a motion for summary judgment, reject as unworthy of credence, an affidavit (see 350a-353a and Plaintiff-Appellant's Brief heretofore submitted at pp. 29-31) of a consulting chemical engineer of long and vast experience in the oil industry that plaintiff's "program was original in several aspects [which the affidavit specifies] and particularly so *when viewed as an integrated project"* (emphasis supplied).

Surely, the industrial subject matter of this law suit is not within the area of common knowledge—something that almost every person of reasonable intelligence "knows". It is true today as in 1888, if not more so, that on issues of novelty in industrial development:

"... The judge must on all such questions vigilantly guard against acting upon expert or special knowledge of his own, instead of keeping strictly within the field of general or popular knowledge . . . It may not have required a very high order of genius or inventive talent to have conceived and produced such a design, but if it was new, if it originated with him, then I cannot on demurrer say his patent is invalid . . ."

Eclipse Manufacturing Co. v. *Adkins*, 36 Fed. 554, 556-557 (1888).

"Knowledge after the event is always easy, and problems once solved present no difficulties, indeed, may be represented as never having had any, . . . But the law . . . regards a change as evidence of novelty, the acceptance and utility of change as a further evidence, even as demonstration".

Diamond Rubber Co. v. *Consolidated Rubber Tire Co.*, 220 U.S. 428, 435.

III.

The issues of confidentiality and Phillips' complicity also are not determinable without a trial.

Did the plaintiff's submission open the eyes and thoughts of the EDA to a vast industrial development and means of attaining it which the EDA had not thought of and which, when plaintiff first suggested it, EDA rejected as utterly impossible but thereafter prosecuted? That, we submit, is the key issue of fact which requires a trial.

Had Judge Weinfeld concluded that that issue required a trial, it seems clear that he would have held the other

issues dependent upon the resolution of that issue, and would not have granted summary judgment (see his first opinion, footnote 59, in the blue covered Appendix at p. 150a).

Therefore, on the issues other than "novelty" as it relates to this case—in order to keep this petition within the required bounds—the Court is respectfully referred to the Plaintiff-Appellant's Brief previously submitted, especially pages 31-35, 37-59.

Certificate

This petition is made in good faith, on the merits, and not for delay or other ulterior purpose.

Respectfully submitted,

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June 3, 1970.